BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendrayer	Chair
David C. Boyd	Commissioner
Marshall Johnson	Commissioner
Thomas Pugh	Commissioner
Phyllis A. Reha	Commissioner

In the Matter of the Application of Greater Minnesota Gas, Inc., a Wholly Owned Subsidiary of Greater Minnesota Synergy, Inc.,for Authority to Increase Rates for Natural Gas Service in the State of Minnesota

ISSUE DATE: July 30, 2007

DOCKET NO. G-022/GR-06-1148

ORDER SETTING RATES, ACCEPTING AND ADOPTING ADMINISTRATIVE LAW JUDGE'S RECOMMENDATION, AND REQUIRING COMPLIANCE FILING

PROCEDURAL HISTORY

I. Initial Filings

On October 23, 2006, Greater Minnesota Gas, Inc. (GMG or the Company), a wholly owned subsidiary of Greater Minnesota Synergy, Inc., filed a general rate case under Minn. Stat. § 216B.16, proposing to increase its rates for natural gas by approximately 7.1%, or $336,500.[1]

On December 19, 2006, the Commission issued two orders finding the rate case filing substantially complete, suspending the proposed rates, and referring the case to the Office of Administrative Hearings for contested case proceedings. In its Notice and Order for Hearing, the Commission directed the parties to address the following issues in the course of the contested case proceedings: 1) Is the test year revenue increase sought by the Company reasonable or will it result in unreasonable and excessive earnings by the Company? 2) Is the rate design proposed by the Company, including proposed revisions to customer charges, reasonable? 3) Are the Company's proposed capital structure, cost of capital, and return on equity reasonable?

On the same date, the Commission issued its Order Setting Interim Rates, authorizing the Company to collect an across-the-board interim rate increase of $336,500 per year, effective for service rendered on or after December 22, 2006. Interim rates are collected subject to refund under Minn. Stat. § 216B.16, subd. 3.

[1] Although GMG projected a revenue deficiency of approximately $1,150,058, the Company did not request to increase its rates to recover the full projected test year revenue deficiency. GMG instead requested to increase rates by approximately one-third of the reported revenue deficiency - $336,500.

II. The Parties and Their Representatives

The following parties filed testimony or memoranda in this case:

- Greater Minnesota Gas, Inc., represented by Eric F. Swanson, Winthrop & Weinstine, 225 South 6th Street, Suite 3500, Minneapolis, Minnesota. Ann Tessler, Vice President, Regulatory Affairs and CFO of GMG, was also present on behalf of the Company.

- The Minnesota Department of Commerce (the Department), represented by Julia E. Anderson, Assistant Attorney General, 445 Minnesota Street, Suite 1400, Saint Paul, Minnesota 55101, and Vincent Chavez, Gas Supervisor for the Department.

III. Proceedings Before the Administrative Law Judge (ALJ)

The Office of Administrative Hearings assigned Administrative Law Judge Richard C. Luis to hear the case.

A. Evidentiary Hearing

Judge Luis held an evidentiary hearing on April 12, 2007.

B. Public Hearing

The Administrative Law Judge held a public hearing in New Prague, Minnesota, on March 5, 2007. Seven members of the public attended, many with questions or comments. The Administrative Law Judge reported that public comments focused on the following areas: initiation of service with residents of New Prague; rates and anticipated rate increases; availability of an audit of GMG's books; and altering rates to subsidize new customers.

The Administrative Law Judge received one letter from a member of the public, who had also appeared at the public hearing.

The hearing record closed on May 1, 2007, with the receipt of the hearing transcript.

IV. Proceedings Before the Commission

On May 16, 2007, the Administrative Law Judge filed his Findings of Fact, Conclusions, and Recommendations (the ALJ's Report). Neither party filed exceptions to the ALJ's Report.

On July 12, 2007, the matter came before the Commission, and the record closed under Minn. Stat. § 14.61, subd. 2.

Having examined the entire record herein, the Commission makes the following findings, conclusions, and order.

FINDINGS AND CONCLUSIONS

I. The Legal Standard

Minn. Stat. § 216B.03 sets the legal standard for Minnesota utility rates:

> Every rate made, demanded, or received by any public utility, or by any two or more public utilities jointly, shall be just and reasonable. Rates shall not be unreasonably preferential, unreasonably prejudicial or discriminatory, but shall be sufficient, equitable and consistent in application to a class of consumers. To the maximum reasonable extent, the commission shall set rates to encourage energy conservation and renewable energy use and to further the goals of sections 216B.164, 216B.241, and 216C.05. Any doubt as to reasonableness should be resolved in favor of the consumer. For rate making purposes a public utility may treat two or more municipalities served by it as a single class wherever the populations are comparable in size or the conditions of service are similar.

Using these standards to determine the justness and reasonableness of proposed rate schedules, of course, turns on the analysis of a multitude of detailed, technical facts.

II. The Company

GMG was founded in 1995 for the purpose of extending natural gas service to previously unserved areas. GMG is a wholly-owned subsidiary of Greater Minnesota Synergy, Inc., a privately -owned Minnesota corporation.

GMG's service area includes parts of the counties of Blue Earth, Scott, Steele, Rice, and Le Sueur. Its service area is approximately 433 square miles. The Company now serves approximately 3,000 customers.

This proceeding is GMG's second rate case filing under Minn. Stat. § 216B.16. GMG made its first rate case filing in April 2004. The Company had previously been exempt from state rate regulation under Minn. Stat. § 216B.16, subd. 12, but additions to its customer base placed its total number of customers over the statute's 2000-customer limit. On April 13, 2005, the Commission issued its Order setting rates.[2] GMG did not request any increase in rates to address a deficiency calculated in that proceeding, and the parties settled the matter with no evidentiary hearing.

III. The Test Year

GMG proposed using the per books financial information for Fiscal Year 2005 (ending December 31, 2005), adjusted for known and measurable changes, to arrive at a test year (projected Fiscal Year 2006, ending December 31, 2006) to determine the revenue deficiency to be remedied by this proceeding.

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[2] Order Setting Rates, Accepting and Adopting Administrative Law Judge's Recommendation, and Requiring Compliance Filing, Docket No. G-022/GR-04-667 (April 13, 2005).

The Department did not object to the Company's proposal to use a projected test year in this case.

IV. Proceedings Herein

The Company and the Department worked together to determine, analyze, and fit together the myriad facts that would determine the Company's revenue requirement, including but not limited to the following: capital costs, sales and revenue levels, depreciation expenses, corporate cost allocations, income taxes, test year determinations, accounting practices and standards, tariff changes and allocation of extension costs.

The Department made a careful analysis of the Company's filing, and recommended certain adjustments to various types of costs and revenues, resulting in a revenue deficiency of $509,197; however, the sum of its recommended adjustments was not sufficient to change the Company's requested rate increase of approximately one-third of their initially filed revenue deficiency. The Department also made a number of recommendations regarding record keeping and data collection on a going-forward basis. The Company accepted all the Department's recommendations.

After the hearing on this matter, GMG reduced its requested increase to $317,157, which amounts to an overall increase of 6.68%.

V. Commission Action

The Commission accepts and adopts the findings, conclusions, and recommendations of the Administrative Law Judge, in which the parties concur. The ALJ's examination of the issues raised is carefully considered, closely reasoned, and based on a full evidentiary record.

The Commission finds that the Company's revenue requirement has been properly determined and the Company's revised proposed increase in rates of $317,157 is appropriate. The Commission concurs with the parties that all issues have been resolved within the zone of regulatory reasonableness, in a manner supported by substantial evidence, and on terms consistent with the public interest.

VI. Financial Schedules

Based on the foregoing findings, the appropriate revenue requirements summary, rate base summary and operating income summary for the test year are set forth below:

Greater Minnesota Gas, Inc.
Revenue Requirements Summary
Test Year Ended December 31, 2006

Line No.	Description	
1	Net Rate Base - Average	$6,806,032
2	Rate of Return Required	8.85%
3	Net Operating Income Required	$ 602,334
4	Net Operating Income/(Loss)	93,137
5	Net Operating Income Deficiency	$ 509,197
6	Gross Revenue Conversion Factor	1.0000
7	Revenue Deficiency	$ 509,197

Greater Minnesota Gas, Inc.
Rate Base Summary
Test Year Ending December 31, 2006

Line No.	Description	
	Utility Plant in Service	
1	Intangible	$3,324
2	Distribution	8,995,726
3	General	120,585
4	Total Plant in Service	$9,119,635
5	Accumulated Depreciation & Amortization	
6	Intangible	$3,324
7	Distribution	870,374
8	General	72,230
9	Total Accumulated Deprec. & Amort.	$945,928
10	Net Utility Plant	$8,173,707
11	Contribution in Aid to Construction	($134,852)
12	Deferred Tax Asset	(1,232,823)
13	Rate Base	$6,806,032

Greater Minnesota Gas, Inc.
Operating Income Summary
Test Year Ending December 31, 2006

Line No.	Description	
	OPERATING REVENUE	
	Firm Gas Sales & Transportation	
1	Residential	$3,311,870
2	Commercial	277,309
3	Industrial	432,353
4	Transportation	0
5	Total Firm Sales	$4,021,532
	Interruptible	
6	Industrial	661,737
7	Total Gas Sales & Transport	$4,683,269
8	Unbilled Revenue Adjustment	0
9	Activation Fees	23,025
10	Miscellaneous Income	34,050
11	Total Operating Revenue	$4,740,344
	OPERATING EXPENSES	
12	Cost of Gas Purchased	$3,652,466
	Distribution	
13	Operation	76,749
14	Maintenance	4,813
15	Customer Accounts	156,785
16	Sales Expense	13,600
17	General & Administrative	464,152
18	Depreciation & Amortization	215,426
19	Taxes Other than Income	211,896
20	Income Taxes	(148,680)
21	Total Operating Expenses	$4,647,207
22	Total Utility Operating Income	$93,137

VII. Filings in Next Rate Case

The Department made a number of recommendations regarding record keeping and data collections on a going-forward basis designed to assist the Company in future rate cases. These recommendations were also adopted by the Administrative Law Judge.

The Commission will require the Company to file revised schedules of rates and charges reflecting the revenue requirement for annual periods beginning with the effective date of the new rates, and the rate design decisions made herein. The Company should also include proposed customer notices explaining final rates.

In addition, the Commission will require the Company to file a proposed plan for refunding to all customers, with interest, the revenue collected during the Interim rate period in excess of the amount authorized.

ORDER

1. The Commission hereby accepts and adopts the recommendations of the Administrative Law Judge and approves the ALJ's recommended increase of $317,157 in GMG's rates.

2. The Commission approves the Department's recommendations made in its February 21, 2007, Comments as follows:

    A. The Commission approves the proposed capital structure of 26.97 percent equity and 73.03 percent debt with a cost of debt of 8.43 percent and a rate of return on equity of 10.00 percent;

    B. For the purpose of determining the test-year revenue deficiency,
        1) The Commission accepts the filed sales forecast numbers;
        2) The Commission denies $132,000 of Distribution plant in the rate base due to the over forecast of 2006 customer additions;
        3) The Commission accepts the Company's proposal to increase its Plant Held for Future Use by $235,372 and decrease Distribution plant in the rate base by the same amount;
        4) The Commission denies the Company's proposed income taxes of $470,505;
        5) The Commission denies $7,155 of Regulatory Commission Expense;
        6) The Commission denies $7,262 of Depreciation Expense in the income statement and $3,631 of related accumulated depreciation expense in the average rate base due to the over forecast of 2006 additions, misclassified depreciation expense, and increase in plant held for future use;

    C. The Commission will require GMG to continue providing the following for each customer class in future rate case filings:
        - billing-cycle sales (energy use);
        - billing-cycle number of customers; and
        - billing-cycle weather data (heating degree-days).

    D. The Commission accepts the corporate cost allocations as filed;

E. The Commission will allow Greater Minnesota to include $5,815 of expenses in the test year for informational advertising;

F. The Commission approves Greater Minnesota's proposal to exclude all marketing expense from the test year;

G. The Commission approves Greater Minnesota's proposal to exclude economic development expenses from the test year;

H. The Commission approves Greater Minnesota's proposal to include $13,600 of CIP expenses in the test year;

I. The Commission will accept the Company's proposed test year bad debt expense of $7,266;

J. The Commission approves the Company proposal to include $1,591 for Organization Dues;

K. The Commission accepts a single CCOSS for the entire company as appropriate and in future rate case filings:

- The Commission will require Greater Minnesota to split the allocation of expenditures for "Land & Land Rights," "Mains," and "Measuring & Regulating Equipment" between customer and capacity costs based on a minimum distribution study;
- The Commission will require Greater Minnesota to use the actual results for the peak day in the test year for determination of the Company's peak day allocation factor; and
- The Commission will require Greater Minnesota to structure its CCOSS so that actual costs for each customer class is determined (not general categories).

L. Rate Design

- The Commission approves Greater Minnesota's request to increase its monthly customer charges for all rate classes;
- The Commission approves Greater Minnesota's proposed revenue apportionment;
- The Commission approves Greater Minnesota's proposed rate area consolidation; and
- The Commission approves Greater Minnesota's proposal to cease charging demand costs to the interruptible customer classes;

M. The Commission approves the proposed Tariff changes as listed in DOC Attachment 12 of its February 21, 2007 Comments in this docket including the increase in the per foot charge for any service line footage beyond the 250 foot service line allowance from $1.25 per foot to $1.34 per foot;

N. The Commission finds that Greater Minnesota has shown that it correctly and consistently applied its extension tariffs in 2005;

O. The Commission approves Greater Minnesota's methods for allocating extension costs;

P. The Commission approves Greater Minnesota's proposed continuation of currently approved extension allowances for mains and services;

3. The Commission will require GMG to provide testimony in its next rate case on the issue of who provided the funds that resulted in the NOL and whether the ratepayers or the shareholders should receive the benefit of the NOL in determining the revenue deficiency;

4. General Housekeeping & Compliance Issues
   A. The Commission will require Greater Minnesota Gas to make the following compliance filings within 30 days of the date of the final order in this docket:
      1) Revised schedules of rates and charges reflecting the revenue requirement and the rate design decisions herein, along with the proposed effective date, and including the following information:
         - breakdown of Total Operating Revenues by type;
         - Schedules showing all billing determinants for the retail sales of gas. These schedules shall include but not be limited to:
           (a) Total revenue by customer class;
           (b) Total number of customers, the customer charge and total customer charge revenue by customer class; and
           © For each customer class, the total number of commodity and demand related billing units, the per unit commodity and demand cost of gas, the non-gas unit margin, and the total commodity and demand related sales revenues;
         - Revised tariff sheets incorporating authorized rate design decisions;
         - Proposed customer notices explaining the final rates.
      2) A revised base cost of gas and supporting schedules incorporating any changes made as a result of this rate case, and automatic adjustments establishing the proper adjustments to be in effect at the time final rates become effective;
      3) A proposal to make refunds of interim rates, including interest calculated at the average prime rate, to affected customers;
   B. The Commission authorizes comments on all compliance filings within 15 days of the date they are filed; however, comments are not necessary on Greater Minnesota Gas' proposed customer notice.

5. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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